SaskWater

Saskatchewan Water Corporation

First Quarter Report
March 31, 2015

SaskWater

Corporate Profile

SaskWater is committed to providing the highest level of service to its customers.

That promise is reflected in the corporation's Vision, Mission and Values.

Our Vision is to be the best at connecting water for life and growth, partnering for a better tomorrow.

Our Mission is to provide safe, reliable and sustainable water and wastewater services for Saskatchewan.

SaskWater is Saskatchewan's commercial Crown water utility, helping communities, First Nations and industry gain access to reliable and professional water and wastewater services.

SaskWater provides professional water and wastewater services to 63 communities, eight rural municipalities, 83 rural pipeline groups, 16 industrial and 236 commercial and end user customers. SaskWater serves more than 72,000 people in Saskatchewan

The corporation owns eight water treatment plants, three wastewater facilities, 39 pump stations, 140 kilometres of canal and 865 kilometres of pipeline. SaskWater also maintains customer-owned systems and provides operator training to 29 Saskatchewan First Nations communities.

SaskWater's Values

Integrity - We act ethically with respect, honesty, courtesy and fairness.

Professionalism - We provide quality, expertise and excellence in the delivery of our services, and we are accountable for our actions

Teamwork - We promote cooperation and commitment to achieve our common goals.

Safety - We are committed to safety in all aspects of our operations

Innovation - We pursue continuous improvement and innovative solutions.

Environment - We respect and support the environment and communities where we live and work.

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Financial and Operating Highlights

	Three Months Ended March 31	
	2015	2014
FINANCIAL HIGHLIGHTS ($ thousands):		
Total revenue	$ 10,957	$ 10,330
Total expenses	9,533	8,949
Operating income	1,424	1,381
Net finance income (expense)	317	(2)
Net Income	$ 1,741	$ 1,379
Unrealized gains included in net finance amount	$ 223	$ 374
Dividends	$ 297	$ -
Debt Ratio	45.65 %	49.60 %
OPERATING HIGHLIGHTS (cubic meters):		
Non-potable water distributed	8,805,255	7,419,686
Potable water distributed	1,566,667	1,589,037

SaskWater

Management Discussion and Analysis

Introduction

Management's Discussion and Analysis (MD&A) highlights the primary factors that affected the financial results and operations of SaskWater for the three months ended March 31, 2015.

The MD&A should be read in conjunction with the unaudited condensed financial statements which have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS).

The Board of Directors has approved these interim financial statements.

For additional information refer to SaskWater's 2014 Annual Report.

SaskWater has defined four measurable strategic objectives to guide the corporation: Customer Driven, Pursuing Excellence, Valuing Employees, and Succeeding Financially.

SaskWater employs provincially certified operators supported by a team of highly qualified technicians, technologists and professional engineers. In addition to operating its own systems, the company also provides certified operations and maintenance for water and wastewater systems.

SaskWater currently owns and operates regional wastewater treatment facilities at Nipawin and Fort Qu'Appelle and a municipal wastewater facility serving Pierceland.

SaskWater can address new demands for water and wastewater services from municipal customers through further:

- Development of service clusters for cost-effective delivery of services to customers

- Implementation of proven treatment plant technologies that exceed regulatory requirements and ensure quality control is maintained, and,

- By ensuring the company has the people and the training to meet anticipated demand for services.

SaskWater

Highlights

Non-Potable Water

Non-potable water volumes have increased in the first quarter of 2015 compared to the first quarter of 2014. Non-potable water is primarily distributed to large industrial customers, especially in the potash mining sector. The change in volumes is largely related to market conditions within the potash sector.

Potable Water

Potable water is primarily supplied to municipal customers. Water volumes within municipalities tend to be more stable during the first quarter of the year. Seasonal fluctuations are more often noted during the second and third quarter and are influenced by temperature and precipitation and the resulting impact on such uses as lawn and garden watering.

Services

Service revenues include certified operations and maintenance where SaskWater provides operator expertise to run customer owned facilities; project management which is largely related to pre-construction engineering services while project proponents complete their feasibility analysis; operator training support to 29 First Nations and northern project management which relates to engineering services to northern Saskatchewan communities primarily in conjunction with the Ministry of Government Relations.

Project management revenues were higher in the first quarter of 2015 than in the first quarter of 2014. This was largely in response to a decision by a major project proponent in 2014 to slow the pace of their development work. In 2015 the work for this project has resumed with an expectation to complete the feasibility work before the end of the year.

Expenses

Expenses have increased in the first quarter of 2015 over the first quarter of 2014 largely in response to the increased project management work, the increased volume of water distributed, and rate increases from major suppliers, particularly urban water utilities that SaskWater purchases treated water from to redistribute to customers.

Net Finance Income (Expense)

Finance costs include debt serving costs on funds borrowed to support investments and earnings on debt retirement funds that are set aside to retire capital market debts on their maturity. The debt retirement funds were $18.168 million at the end of the first quarter of 2015. Debt retirement funds are adjusted to reflect the change in market value of the underlying securities at each reporting period. The debt retirement funds are managed and actively traded by the Ministry of Finance. During the first quarter of 2015, the Ministry experienced significant trading gains. The trading gains combined with unrealized market gains resulted in an overall net revenue from financing related activities.

Saskatchewan Water Corporation

Statement of Financial Position

(unaudited - thousands of dollars)

	as at March 31, 2015	as at December 31, 2014	Change
Assets			
Current assets			
Cash	$ 7,440	$ 11,747	$ (4,307)
Trade and other receivables	17,122	29,215	(12,093)
Prepaid expenses and inventories	801	642	159
	25,363	41,604	(16,241)
Investment - debt retirement funds	18,168	16,989	1,179
Property, plant and equipment	264,903	257,790	7,113
	$ 308,434	$ 316,383	$ (7,949)
Liabilities and Province of Saskatchewan's Equity			
Current liabilities			
Trade and other payables	$ 11,373	$ 21,913	$ (10,540)
Notes payable	23,679	20,128	3,551
Infrastructure deposits	9,740	19,099	(9,359)
Dividends payable	297	-	297
Current portion of deferred revenue	2,905	3,020	(115)
Current portion of long-term debt	4,807	2,407	2,400
	52,801	66,567	(13,766)
Deferred revenue	167,038	160,232	6,806
Provisions	1,603	1,636	(33)
Long-term debt	33,893	36,293	(2,400)
Employee benefits	454	454	-
	255,789	265,182	(9,393)
Province of Saskatchewan's Equity			
Equity advance	8,700	8,700	-
Retained earnings	43,945	42,501	1,444
	52,645	51,201	1,444
	$ 308,434	$ 316,383	$ (7,949)

Saskatchewan Water Corporation

Statement of Operations and Comprehensive Income

(unaudited - thousands of dollars)

	Three months ended March 31		
	Actual 2015	Actual 2014	Variance
Revenue (Note 4)			
Water sales and treatment	$ 8,103	$ 7,734	$ 369
Services	1,977	1,684	293
Other	877	912	(35)
	10,957	10,330	627
Expenses			
Salaries and benefits	2,984	2,827	(157)
Operations, maintenance, and administration	2,925	2,605	(320)
Amortization of property, plant and equipment	1,938	2,012	74
Bulk water purchases	1,506	1,325	(181)
Saskatchewan taxes	180	180	-
	9,533	8,949	(584)
Operating income	1,424	1,381	43
Finance income	807	500	307
Finance expense	(490)	(502)	12
Net finance income (expense) (Note 5)	317	(2)	319
Net income (loss)	$ 1,741	$ 1,379	$ 362

Saskatchewan Water Corporation

Statement of Retained Earnings

(unaudited - thousands of dollars)

	Three months ended March 31		
	Actual 2015	Actual 2014	Variance
Retained Earnings			
Retained Earnings, beginning of period	$ 42,501	$ 37,034	$ 5,467
Total comprehensive income for the period	1,741	1,379	362
Dividends	(297)	-	(297)
Retained Earnings, end of period	$ 43,945	$ 38,413	$ 5,532

Saskatchewan Water Corporation

Statement of Cash Flows

(unaudited - thousands of dollars)

	Three months ended March 31 2015	March 31 2014
Operating activities		
Net income (loss)	$ 1,741	$ 1,379
Items not affecting cash from operations:		
Amortization of property, plant and equipment	1,938	2,012
Amortization of deferred revenue	(736)	(785)
Amortization of provisions - onerous contracts	(60)	(58)
Net financing (income) expense	(317)	2
Loss (gain) on disposal of property, plant and equipment	-	(15)
Change in non-cash working capital items:		
Trade and other receivables	12,093	12,590
Prepaid expenses and inventories	(159)	(200)
Trade and other payables	(10,535)	(4,588)
Infrastructure deposits	(9,359)	355
Deferred revenue	7,427	6,950
Interest paid	(470)	(480)
Interest received	4	4
Cash provided by operating activities	1,567	17,166
Investing activities		
Property, plant and equipment expenditures	(9,050)	(7,637)
Proceeds on disposal of property, plant and equipment	-	15
Cash used in investing activities	(9,050)	(7,622)
Financing activities		
Proceeds from (Repayments of) notes payable	3,551	(3,400)
Debt retirement fund installments	(375)	(1,128)
Cash provided by financing activities	3,176	(4,528)
Change in Cash	(4,307)	5,016
Cash, Beginning of Period	11,747	4,232
Cash, End of Period	$ 7,440	$ 9,248

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

March 31, 2015

1. General Information

The Saskatchewan Water Corporation (the Corporation) is a corporation located in Canada. The address of the Corporation's registered office and principal place of business is 200-111 Fairford Street East, Moose Jaw, SK, S6H 1C8.

The Corporation was established on July 1, 1984 under the authority of The Water Corporation Act which remained in effect until March 31, 2002. On October 1, 2002 The Saskatchewan Water Corporation Act was proclaimed.

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada, but is subject to Provincial corporate capital tax.

The principal activity of the Corporation is to construct, acquire, manage or operate works and to provide services in accordance with any agreements that it enters into pursuant to *The Saskatchewan Water Corporation Act*.

2. Basis of Preparation

Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 - *Interim Financial Reporting* and accordingly do not include all of the information required for full annual financial statements.

The condensed interim financial statements were authorized for issue by the Board of Directors on May 20, 2015.

Interim measurement

SaskWater's sales to municipal customers are seasonal, with the second and third quarters being the strongest periods, reflecting hotter weather and higher outdoor water usage.

Basis of measurement

The condensed interim financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments that are accounted for at fair value through profit and loss.
- Provisions.
- Employee benefit obligations.

Functional and presentation currency

These financial statements are presented in Canadian Dollars, which is the Corporation's functional currency.

2. Basis of Preparation (continued)

Use of estimates and judgments

The preparation of these condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies are:

- Valuation of trade and other receivables
- Underlying estimates of useful lives and amortization of property, plant and equipment
- Underlying estimates of deferred revenue and infrastructure deposits
- Carrying amounts of provisions and underlying estimates of future cash flows
- Carrying amounts of employee benefits and underlying actuarial assumptions
- Underlying estimates for future commitments and contingencies

3. Significant Accounting Policies

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those disclosed in the corporation's December 31, 2014 audited financial statements.

The accounting policies have been applied consistently to all periods presented in these condensed interim financial statements.

New standards and amendments to standards

The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2015, have been applied in preparing these condensed financial statements:

- IAS 32 Financial Instruments: Presentation Effective Date - January 1, 2015

The adoption of IAS 32 had no material impact on the financial statements. The new disclosure requirements will be provided in the 2015 annual financial statements.

New standards and interpretations not yet adopted

IFRS 9, Financial Instruments standard is not yet effective for the period ended March 31, 2015, and have not been applied in preparing these condensed consolidated financial statements. The extent of the impact of IFRS 9 is not known at this time. The International Accounting Standards Board has deferred finalization of IFRS 9 indefinitely, and therefore, the effective date is unknown.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited
March 31, 2015

4. Revenue

	Three months ended Mar 31	
	2015	2014
	(Thousands)	
Water sales and treatment		
Potable water supply	$ 3,821	$ 3,698
Non-Potable water supply	4,123	3,890
Wastewater treatment	159	146
	8,103	7,734
Services		
Certified operations & maintenance	385	368
Project management	1,288	983
Northern project management	121	143
Operator training	183	190
Leak detection	-	-
Other services	-	-
	1,977	1,684
Other		
Amortization of customer contributions	679	728
Amortization of government grants - capital related	57	57
Miscellaneous revenue	141	127
	877	912
	$ 10,957	$ 10,330

5. Finance income and expenses

	Three months ended Mar 31	
	2015	2014
	(Thousands)	
Finance income		
Debt retirement fund earnings	$ 581	$ 122
Positive changes in fair value of debt retirement funds	223	374
Other finance income	3	4
	807	500
Finance expenses		
Interest expense on short-term debt	52	63
Interest expense on long-term debt	411	411
Unwinding of discount on provisions	27	27
Other interest expense	-	1
	490	502
Net finance expense	$ 317	$ (2)

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited
March 31, 2015

6. Equity Advance and Capital Disclosure

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

The Corporation's debt management plan is built on the goal of ensuring the capacity to meet long term obligations and ensuring financial health, while achieving the growth plans of the Corporation.

As a Crown corporation, SaskWater receives its long-term capital funding primarily from the Saskatchewan Ministry of Finance. SaskWater also has access to a $30 million line of credit, extended by the Saskatchewan Ministry of Finance, which is used to manage short-term liquidity.

The Corporation's capital consists of notes payable, long-term debt and equity, less debt retirement funds.

The Corporation monitors capital on the basis of the debt ratio. The current long-term debt ratio target is 60%, which is consistent with the prior period. The debt ratio is calculated as net debt divided by end of period capitalization as follows:

	March 31, 2015	December 31, 2014
	(Thousands)	
Gross long-term debt	$ 38,700	$ 38,700
Notes payable	23,679	20,128
Debt retirement funds	(18,168)	(16,989)
Net debt	44,211	41,839
Total equity	52,645	51,201
Capitalization	$ 96,856	$ 93,040
Debt ratio	45.6%	45.0%

The Corporation has complied with all externally imposed restrictions on its debt for the period ended March 31, 2015.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited
March 31, 2015

7. Commitments and Contingencies

a) Contractual commitments (Thousands)

As of March 31, 2015, the Corporation has outstanding commitments of $40,514 (December 31, 2014 - $44,775) for construction contracts and consulting agreements primarily relating to assets under construction and other service contracts.

b) Litigation

The Corporation has provided, in its accounts, for any known claims from lawsuits or other legal proceedings for which there is material risk of liability to the Corporation in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise between amounts provided and amounts expended in the period in which the claims are resolved.

8. Financial instruments

a) Fair values

Fair values are the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the

The following summarizes the classification, carrying amounts and fair values of the Corporation's financial instruments:

	Classification[1]	March 31, 2015 Asset (Liability) Carrying Amount (Thousands)	March 31, 2015 Asset (Liability) Fair Value	December 31, 2014 Asset (Liability) Carrying Amount	December 31, 2014 Asset (Liability) Fair Value
Financial assets					
Cash	FVTPL	$ 7,440	$ 7,440	$ 11,747	$ 11,747
Trade and other receivables	L&R	17,122	17,122	29,215	29,215
Debt retirement funds	FVTPL	18,168	18,168	16,989	16,989
Financial liabilities					
Trade and other payables	OL	11,373	11,373	21,913	21,913
Notes payable	OL	23,679	23,679	20,128	20,128
Infrastructure deposits	OL	9,740	9,740	19,099	19,099
Long-term debt	OL	38,700	44,473	38,700	43,300

[1]Classification details are as follows:
FVTPL - Fair value through profit and loss
L&R - Loans and Receivables
OL - Other Liabilities

8. Financial instruments (continued)

The estimated fair values of these financial instruments have been determined based on the following methods and assumptions, and may not represent the amounts that could be realized upon settlement.

All long-term debt obligations are estimated using discounted cash flow analysis based on current market yields for similar arrangements (Level 2). Debt retirement funds are valued at closing period-end unit prices received from the Saskatchewan Ministry of Finance (Level 2).

b) Determination of fair values

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash, trade and other receivables, trade and other payables and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.
Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

	March 31, 2015		December 31, 2014	
	Level 1	Level 2	Level 1	Level 2
	(Thousands)			
Debt retirement funds	$ -	$ 18,168	$ -	$ 16,989
Long-term debt	$ -	$ 44,473	$ -	$ 43,300